

COPY NO. 150

~~SECRET~~

(b) (3)

NATIONAL INTELLIGENCE ESTIMATE

COMMUNIST CHINA'S POWER POTENTIAL
THROUGH 1957



NIE 13-54

Approved 25 May 1954

Published 3 June 1954

The Intelligence Advisory Committee concurred in this estimate on 25 May 1954. The AEC and FBI abstained, the subject being outside of their jurisdiction.

The following member organizations of the Intelligence Advisory Committee participated with the Central Intelligence Agency in the preparation of this estimate: The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

CENTRAL INTELLIGENCE AGENCY

~~SECRET~~

DISSEMINATION NOTICE

1. This copy of this publication is for the information and use of the recipient designated on the front cover and of individuals under the jurisdiction of the recipient's office who require the information for the performance of their official duties. Further dissemination elsewhere in the department to other offices which require the information for the performance of official duties may be authorized by the following:

- a. Special Assistant to the Secretary for Intelligence, for the Department of State
- b. Assistant Chief of Staff, G-2, for the Department of the Army
- c. Director of Naval Intelligence, for the Department of the Navy
- d. Director of Intelligence, USAF, for the Department of the Air Force
- e. Deputy Director for Intelligence, Joint Staff, for the Joint Staff
- f. Director of Intelligence, AEC, for the Atomic Energy Commission
- g. Assistant to the Director, FBI, for the Federal Bureau of Investigation
- h. Assistant Director for Collection and Dissemination, CIA, for any other Department or Agency

2. This copy may be either retained or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Office of Collection and Dissemination, CIA.

3. The overseas dissemination of this intelligence will be limited to a period of one year or less, at the end of which time it will be destroyed, returned to the forwarding agency, or permission requested of that agency to retain it in accordance with IAC-D-69/2, 22 June 1953.

~~WARNING~~

~~This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.~~

DISTRIBUTION:

White House
National Security Council
Department of State
Department of Defense
Foreign Operations Administration
Operations Coordinating Board
Atomic Energy Commission
Federal Bureau of Investigation
United States Information Agency

~~SECRET~~

COMMUNIST CHINA'S POWER POTENTIAL THROUGH 1957

THE PROBLEM

To estimate the political, economic, and military development of Communist China through 1957.

CONCLUSIONS

1. The Chinese Communists¹ have as their long-range goal the development of a Soviet-style state in China, with its own bases of economic and military strength, and dominant in eastern and southern Asia. To this end they will proceed, as rapidly as possible, through the forced and ruthless measures characteristic of Communist regimes, to reorganize the social structure along Communist lines, improve the effectiveness of the administrative system, and develop the economy to the extent feasible. The regime will devote substantial resources to modernizing and strengthening its armed forces as a power base for its foreign policy.

2. Although the Chinese plans for economic development are not known in detail, it appears that these plans contemplate an increase in total output in 1957 to 20-25 percent above the 1952 level. Emphasis is placed upon increasing the output of the modern industrial sector, particularly heavy industry and transport. Fulfillment of the regime's economic plans depends upon increasing

agricultural output while rigorously restricting consumption so as to provide the resources needed to support the industrial investment and military programs. A large part of the capital goods needed to fulfill the program will have to be obtained from the rest of the Soviet Bloc in return for Chinese exports. Available resources will have to be efficiently allocated to ensure that crucial sectors of the economy, such as transport, meet the demands generated by increasing production.

3. Barring a major crisis or other unpredictable event, we estimate that China will have attained by 1957 a gross national product of roughly US \$32 billion, an increase of 20-25 percent over the 1952 figure. We estimate that agricultural output will be about 10 percent higher than in 1952, and the output of the modern industrial sector of the economy 70-100 percent higher. The increases in individual industries (including transportation) will of course vary widely from this over-all rate of increase. Even by 1957, however, the Communists will only have begun the modernization of China's economy. The country will as a whole remain agrarian and underdeveloped.

¹ Except where otherwise indicated explicitly or by context, "China" and "Chinese," as used hereafter, refer to Communist China and the Chinese Communists.

~~SECRET~~

4. We believe that by 1957 the Chinese regime will have increased its administrative efficiency and have further tightened its control over its people and resources, but the regime will not have been able substantially to alter traditional social patterns or to obtain more than passive acceptance from the bulk of the population. However, we believe that the regime's ability to direct and control China will not be significantly impaired. Furthermore, we believe that the regime will be able to master leadership problems that are likely to arise, even in the event of the death or retirement of Mao Tse-tung.

5. The internal control and the international power position enjoyed by the Communist regime rest largely upon the power potential of China's military establishment, at present the largest of any Asian nation. We believe that the military establishment will gain in strength

and effectiveness during the period of this estimate through the regime's program of modernization and training. Soviet assistance will continue to be essential to the fulfillment of this program.

6. We believe China's dependence on the USSR will not be significantly lessened during the period of this estimate, and that maintenance of the alliance with the USSR will continue to be a dominant aspect of China's foreign policy. The Communist Chinese regime will continue to consolidate its political position, to gain in economic and military strength, and by 1957 will be a more powerful force in world affairs than at present. Certain aspects of China's development will be used to support claims that time is on the Communist side in Asia. China's increased power and prestige will present a challenge to the influence of the Western nations in Asia, and to the Asian leadership aspirations of India and Japan.

DISCUSSION

I. INTRODUCTION

7. Since their assumption of power in 1949, the Chinese Communists have, with Soviet assistance, built up a powerful military establishment. The Communists have undertaken a political and social revolution of vast proportions, and they have virtually eliminated effective opposition. They have largely rehabilitated and established control over the country's economy.

8. The Communist regime has accomplished the foregoing in the face of serious obstacles and at great economic and human cost. In 1949 the regime was confronted by widespread economic disruption, and general weariness resulting from 12 years of virtually continuous war. The regime has had to impose its will on 500,000,000 Chinese people and over an

area approximately as large as the US, Mexico, and Alaska combined. The bulk of the people are illiterate; communication and transportation facilities are rudimentary or inadequate in many areas. Formidable problems must still be overcome before the Chinese reach the ambitious goals set by the regime.

II. PRESENT SITUATION IN CHINA

9. The Chinese Communist regime has undertaken to create an industrialized and militarily powerful state. At present, the energies of the regime appear to be devoted to the consolidation and expansion of China's economic strength, modernization of military forces, and the transformation of China's political and social structure. To these ends, the regime is creating a more effective administration of government, intensifying its con-

trols, and undertaking to eliminate or neutralize institutions or individuals which stand in the way of its goals.

Political Development

10. *Administration and leadership.* The Chinese Communists have adapted Soviet administrative and political institutions and techniques to Chinese conditions. The highly centralized and dictatorial government has instituted effective measures to suppress traditional regional, clan, and ethnic loyalties, and has imposed a unitary state structure with direct lines of command down to the village level.

11. Ultimate power in China resides in the Communist party and is vested in the Political Bureau (Politburo) of the Party's Central Committee. Under Mao Tse-tung's leadership each of the five principal members of the Politburo appears to have certain general areas of responsibility, in addition to collective responsibility in the Politburo: Liu Shao-ch'i, party affairs; Chou En-lai, operation of the government; Chu Teh, military; and Ch'en Yun and Kao Kang, economic affairs.

12. The decisions of the Politburo are transmitted through a governmental structure patterned on that of the USSR. (See Chart I.) The highest place in the governmental structure is reserved for the All China People's Congress, a body to be chosen by national elections now promised for 1954. Until this event takes place the top governmental body is the Central People's Government Council, headed by the Chairman (Mao Tse-tung) and six vice-chairmen. To bolster the fiction that the government is a coalition, three of the six vice-chairmen are "democratic personages" representing other political groups such as the Chinese Democratic League and the Kuomintang Revolutionary Committee. The principal administrative bodies — the Government Administration Council and the People's Revolutionary Military Council — are nominally responsible to the Central People's Government Council. However, since the principal members of the Politburo are also members of these administrative bodies, the authority of the Communist party is brought to bear

directly upon the administration of the state. Decisions made by the national authority are implemented in each of the administrative regions of China by a regional organization composed of party, government, and military organs. A similar pattern of integrations of party and government is repeated down to local government level.

13. Chinese leadership is marked by the cohesion and stability of the party elite. The Communist leaders have been closely knit by their common experience in revolution and war since the party's founding in 1921. As in any group, however, there have been rivalries for power in the past and some almost certainly exist at present. Party pronouncements such as the February 1954 warning by the Central Committee on existing dangers to party unity suggest the existence of differences and rivalries, and there are hints of the existence of ill-defined groupings about Liu Shao-ch'i and Chou En-lai. There is no firm evidence, however, of clearly established factions among the upper echelons. There have been no major purges in the past 16 years.

14. The precise manner in which Soviet influence or control finds its way into Chinese policies is not known. The USSR apparently treats its Chinese ally with deference. Soviet advisers almost certainly are in contact with the highest level of Chinese party and government leadership, but we do not believe that these Soviet officials issue direct orders. We believe the USSR is able to exert influence over Chinese policies primarily by virtue of their common ideology and China's economic and military dependence on the USSR.

15. *Political Controls.* The Communist regime has vigorously and ruthlessly set about establishing political control over the Chinese people. To do this, it has employed a wide array of programs, ranging from inducements and patriotic appeals to coercion and terror.

16. The Chinese Communists have developed an elaborate system of persuasion, involving social, economic, legal, and psychological pressures, and the operations of an extensive and highly coordinated propaganda apparatus. The Communists have sought to instill in the people a sense of participation in

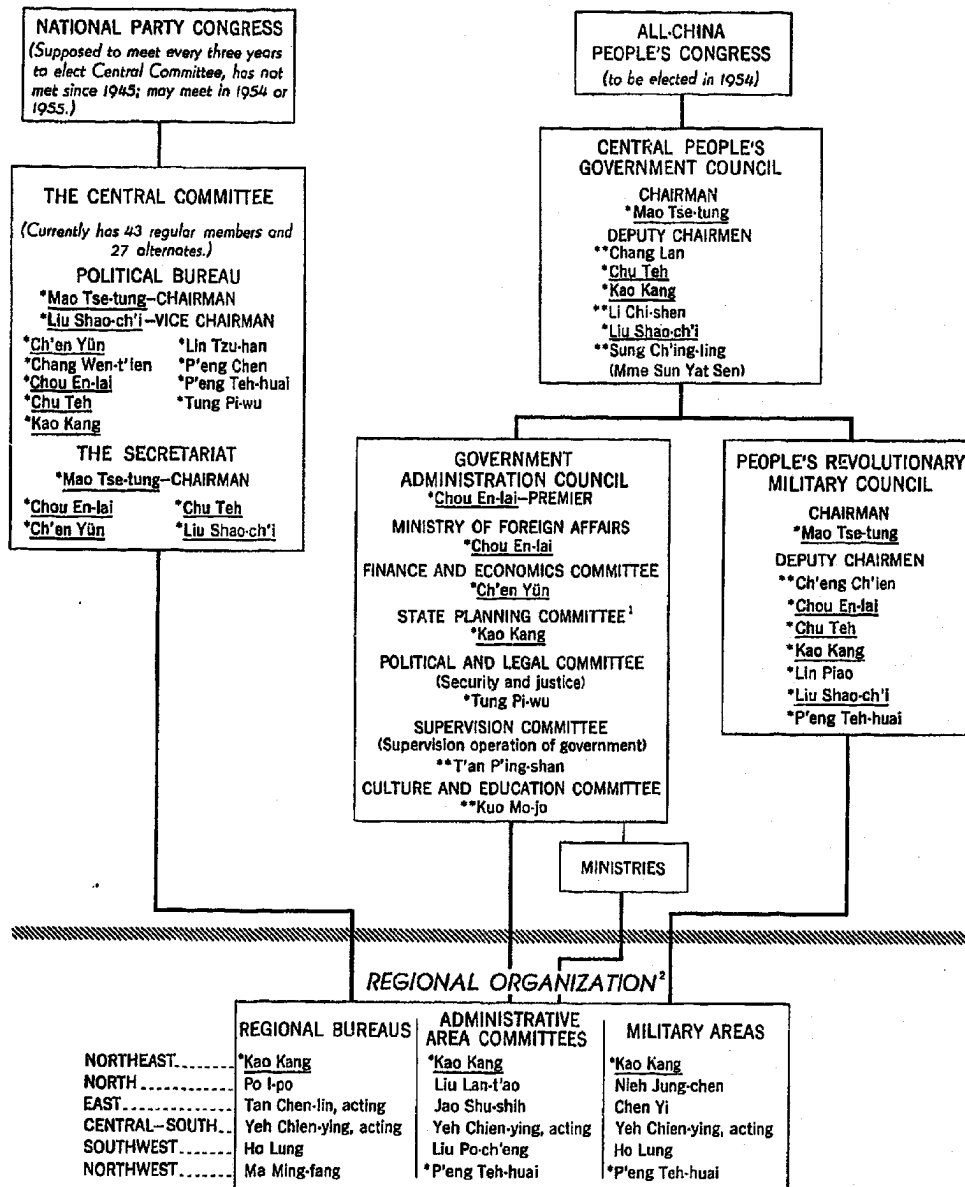
~~SECRET~~

Chart 1

COMMUNIST CHINA PARTY AND GOVERNMENT ORGANIZATION

CHINESE COMMUNIST PARTY

CENTRAL PEOPLE'S GOVERNMENT



*Chinese Communist Politburo Members
**Non-Communist Party Members

The underlining indicates the government positions held by the six most important members of the Politburo.

1. The exact relationship of the State Planning Committee to the Government Administration Council is not known.

2. In addition there are two autonomous areas, Inner Mongolia and Tibet, that are also on a regional level.

~~SECRET~~

the "new China" and, through exaggerated claims of China's military and diplomatic accomplishments, to stimulate Chinese national pride. The regime has attempted to win public support by extensive campaigns against corruption and nepotism and by promising increased opportunity to the peasantry and urban proletariat. The regime has tried in particular to win the loyalties of youth.

17. The Communists have had considerable success in winning support from certain segments of the population. Some of the initial revolutionary zeal remains. In particular, a large portion of China's youth is impressed by the regime's achievements. Other important and energetic elements of support are found among members of the armed forces, government workers, skilled industrial workers, and a considerable proportion of the women.

18. Through terror and force, the Communists have eliminated the landlord class and thousands of businessmen, professionals, and former government officials. There is no evidence of significant organized resistance to the regime. To insure its control, the regime has established extensive security and police forces in addition to the army. In addition to these organized forces, the regime's ability to ferret out dissenters has been augmented by a pervasive system of vigilance committees and volunteer informers.

19. However, much of the voluntary support the regime received in 1949 has been dissipated. The regime's coercive measures have created an atmosphere of fear among many segments of the population. Many Chinese have probably become increasingly suspicious that the USSR is encroaching upon China's sovereignty. In some instances, strong adverse reactions have resulted from attacks on religious and traditional institutions. Increased taxation and regimentation have caused an adverse reaction among the farmers. Dissatisfaction has arisen among workers as a result of the failure of real income to rise. Merchants and petty shopkeepers are resentful of heavy taxes and government competition. Dissatisfaction has grown among intellectual and professional groups as

a result of the drop in their living standards and of the regime's unrelenting pressure toward literal conformity.

20. However, such dissatisfaction as now exists in China has neither the universality, the intensity, nor the physical means by which to transform itself into effective resistance.

Economic Situation

21. China is an underdeveloped agricultural country with a population of 500 million. China's estimated gross national product of approximately US \$27 billion² is less than one-third of Soviet and about one-fourteenth of US GNP. China's per capita gross national product of roughly US \$54 is about equal to that of India but only about one-quarter that of Japan. While there are the beginnings for a modern industrial development the present contribution of the industrial sector to total output is small. The regime faces a formidable task in achieving its long-term goal of a modern industrialized economy. To accomplish this, the Communists are developing their organization for planning and for controlling the economy.

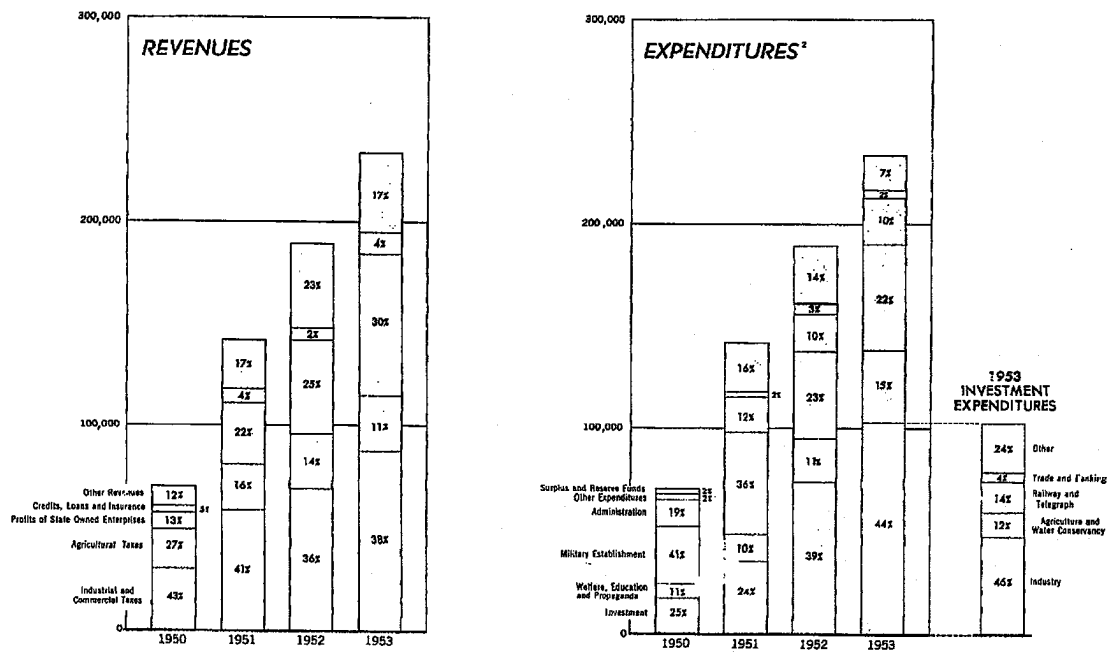
22. As in any planned economy, the national budget is the major instrument for channeling resources to implement the regime's programs. By 1952, the Chinese national budget had risen to about a third of the gross national product, a substantially lower proportion than in the case of the USSR. The two most important categories of budget expenditures during this period have been military outlay and capital investment. (See Chart II for breakdown of the budget.)

23. In 1949, when the Communists undertook the task of rehabilitating and expanding the Chinese economy after 12 years of wartime disruption, production was extremely low. At that time, the production of electric power was only about two-thirds of the peak production under the Japanese, coal roughly two-

² Estimates based on 1952 data are used generally throughout. Changes since 1952 are believed not to have altered the general order of magnitudes or the relationships.

~~SECRET~~

Chart 2
BUDGET OF COMMUNIST CHINA, 1950-53¹
(Billions of Current Yuan)



19224 CIA, 5-54

¹ The figures in this chart are taken from published Chinese Communist budgets.
² It is probable that categories other than "military establishment" contain substantial amounts to be expended on military projects, particularly for the years 1952 and 1953. However, it is believed that with adjustments for these factors investment expenditures have increased even more substantially than military expenditures.

~~SECRET~~

fifth's, and finished steel about one-sixth. (See Table I.) By the end of 1952, the Chinese had succeeded in general in rehabilitating the economy. Steel production exceeded by roughly one-quarter the highest levels reached between the years 1937 and 1945; grain and power production were slightly above this level; and coal output was about three-quarters of this level. (See Chart III for comparison of Chinese production in 1952 with highest 1937-1945 levels and with production in US and USSR.)

TABLE I
ESTIMATED PRODUCTION OF SELECTED KEY
COMMODITIES IN CHINA, 1952

Commodity	Units	1937-1945 Peaks		1952
		Year	Quantity	
Food Grains	million metric tons	1939	106	112
Electric Power	billion KWH	1944	7	8
Crude Steel	million metric tons	1943	0.9	1.1
Crude Oil	thousand metric tons	1943	260	315
Coal	million metric tons	1942	65	50

24. The general rise in domestic production and trade, the great expansion of overland trade between the Soviet Bloc and China, and the movement of military supplies to Korea have increased demands on Chinese transport capacity. The regime has almost restored the rail net developed by the Chinese Nationalists and the Japanese in their respective zones prior to 1945. The Communists have also brought to completion about 800 miles of new lines. (For major transport lines see Map 1 at end of estimate.) However, the rail net is still inadequate in many areas. Lack of rail transportation has greatly hampered the exploitation of strategic minerals in western China, including such key projects as the development of the Yumen oil fields. Moreover, the Chinese have not yet restored the prewar supply of freight cars and loco-

motives. Largely because of the increased transport demand and shortages of rolling stock, the rail system is currently operating under considerable strain. Drastic measures are being employed to stretch present capacity by intensifying the utilization of equipment.

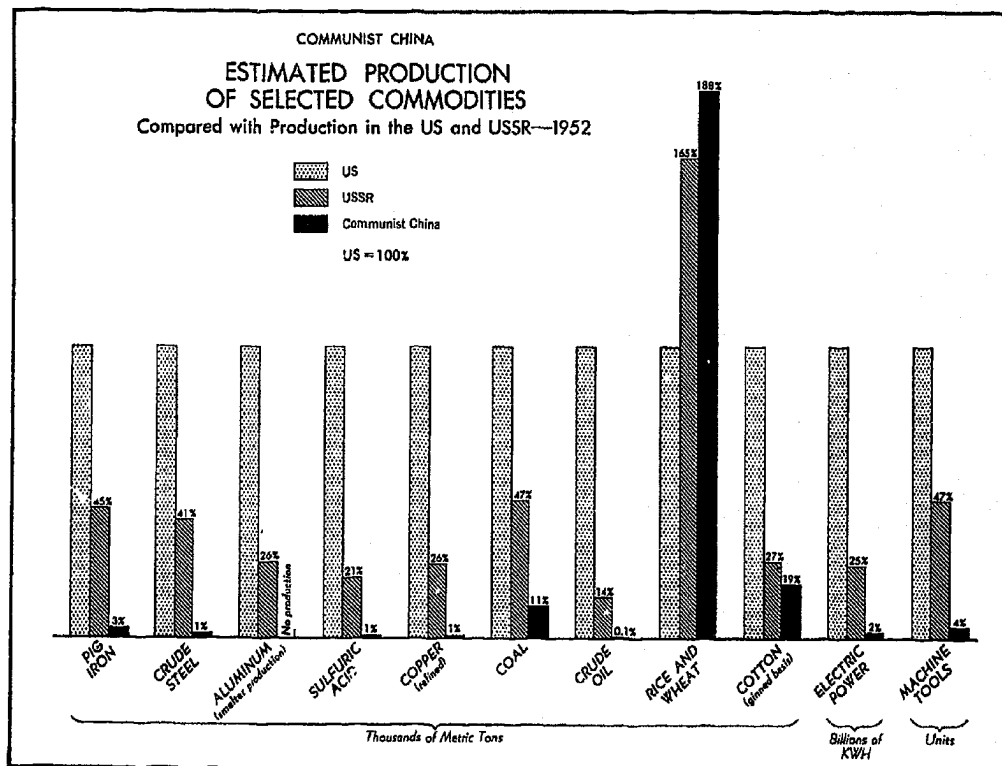
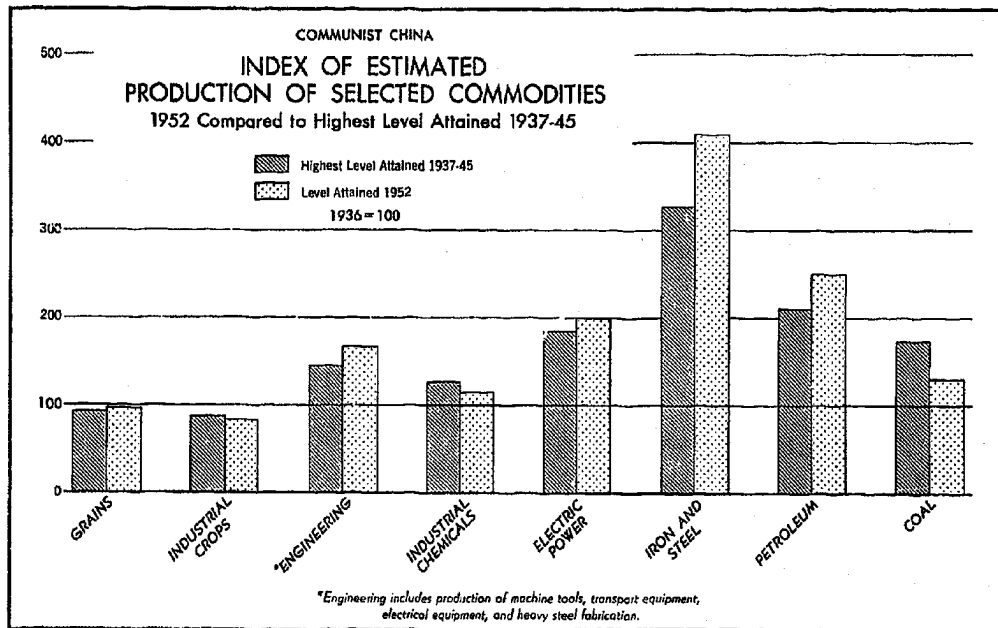
25. Other forms of transport have played a smaller part in the regime's program. There is still relatively little motor transport. Long distance motor transport has not been feasible in most areas because of poor roads and shortages of fuel. Transport via inland waterways is not utilizing the full capacity of available shipping, apparently in part because of the significant change in the pattern of trade. Cargo junks make up the bulk of China's inland and coastal water transport capacity, though the Chinese ocean-going merchant fleet of 101 small slow ships plays an important part in coastal trade from Shanghai northward. China is dependent on non-Chinese shipping for almost all of her sea-borne foreign trade. Civil aviation is little developed and has been used primarily as an adjunct of military air transport, especially during the Korean War.

26. Although the Communists have made considerable progress in rehabilitating the Chinese economy, the basic pattern remains unchanged. Agriculture is still the primary activity and per capita production is still low. The major sector contributions to gross national product are shown in Chart IV. Moreover, the geographic concentrations of economic activity within China remain substantially unchanged. (See Map 1 at end of text.)

27. On the other hand, the Communists have made a major change in the direction and composition of China's foreign trade. In 1938 practically all of this trade was with countries not now in the Soviet Bloc, while in 1952 the Soviet Bloc accounted for about 70 percent of China's foreign trade. In terms of constant dollars, China's total foreign trade in 1952 was roughly the same as in 1938. However, imports in constant dollars were considerably less in 1952 than in 1938 when a large import surplus was financed by Japa-

Chart 3

~~SECRET~~



13226 CIA, 5-54

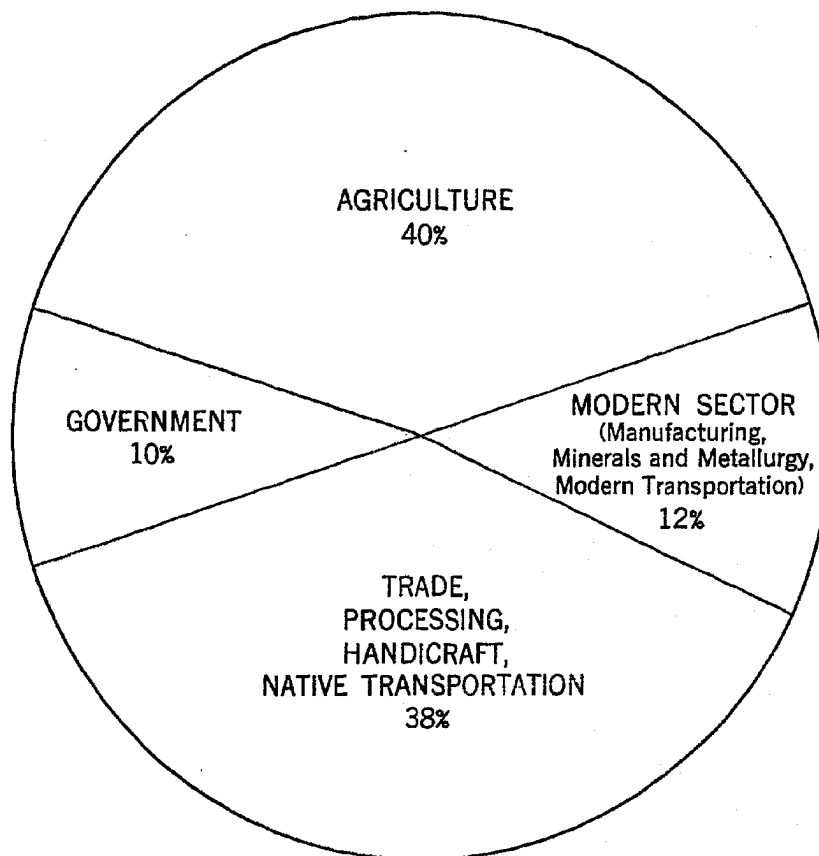
~~SECRET~~

~~SECRET~~

Chart 4

COMMUNIST CHINA

GROSS NATIONAL PRODUCT
ESTIMATED PERCENTAGE CONTRIBUTION OF SECTORS
1952



Total GNP—\$27 billion

Per capita—\$54

13227 CIA, 5-54

~~SECRET~~

nese investment in Manchuria. Imports of consumer goods in 1952 constituted a smaller proportion of the total than in 1938. Imports of military supplies in 1952 constituted a much greater proportion of the total than in 1938. Imports of capital goods and industrial raw materials constituted about the same proportion in 1952 as in 1938. These changes in direction and composition have come about in part because of China's new political relationship with the Soviet Bloc, in part because of Western trade restrictions, and in part because of the requirements of China's programs of economic and military development.

Chinese Communist Armed Forces

28. The internal control and the international power position enjoyed by the Communist

regime rest largely upon the power potential of China's military establishment. Within China, the armed forces have held a position of unique privilege and power in the state hierarchy since Mao Tse-tung assumed leadership of the party. The loyalty of the military forces adds greatly to the regime's power to coerce the people. The Chinese military establishment is at present the largest of any Asian nation, with over 2¼ million men in the field forces and an actual aircraft strength of more than 1,500. (See Table II.) These forces, supported by the USSR and greatly improved by the Korean War, have given the Communists an overwhelming military advantage over the countries of non-Communist Asia and have profoundly affected the over-all balance of power in Asia.

TABLE II

CHINESE COMMUNIST MILITARY STRENGTH

Army		Air Force		Naval Air		Navy	
Total Strength	3,300,000	Total Strength	84,000	Total Strength	1,200	Total Strength	80,000
Field Force	2,300,000	Total Aircraft Strength		Total Plane Strength		Naval Vessels ¹	
		TO & E	Actual	TO & E	Actual		
160 Infantry Div.		1,980 —	1,500	160 —	80	1 Light Cruiser	
5 Armored Div.		930 —	720 Jet Fgts.	80 —	40 Piston Fgt.	17 Frigate/Gunboats	
3 Parachute Div.		280 —	170 Piston Fgts.	40 —	10 Jet Lgt. Bmb.	3 Old Gunboats	
6 Cavalry Div.		200 —	150 Ground Att.	40 —	30 Piston Lgt. Bmb.	4 Motor Gunboats	
19 Artillery Div.		200 —	120 Jet Lgt. Bmb.			40-50 Motor Torpedo Boats	
40 Independent Reg.		240 —	220 Piston Lgt. Bmb.			16 River Gunboats	
35 Independent Bn.		10 —	10 Piston Med. Bmb.			45 (or more) Amphibious vessels of all kinds	
		120 —	110 Transports			11 (or more) Auxiliaries	
Public Security Forces	1,000,000 ²						
18 Security Div.							
16 Independent Security Reg.							

¹ The light cruiser is believed to be nonoperational. In addition to the vessels listed the CCF has from 250 to 300 armed motor junks and district patrol craft. It is known that some Chinese personnel have undergone submarine training and one ex-Soviet submarine, possibly of the "medium-range" type, is in Chinese hands at Tsingtao. This submarine is believed to be in a "training status" and is not operational.

² Identified units constitutes only a small portion of total estimated strength. In addition to others as yet unidentified divisions and regiments, there are an unknown number of small local units of varying size scattered throughout China.

29. The Chinese Army, with its heavy emphasis on the foot soldier and human or animal transport, would be less deterred by formidable terrain and extremes of weather than would a mechanized army. On the other hand, deficiencies in logistics, communications, heavy equipment, and combined arms technique would put the Chinese Army in a disadvantageous position in dealing with a modern Western army under conditions where heavy equipment and modern techniques could be used.

30. The Chinese air capability was not fully tested in Korea. Combat activity was limited almost entirely to an air defense role, and the air force operated as one component of the Communist Air Force, which also included Soviet and Korean units. The Chinese have a fair capability in air defense under good visibility conditions, but they have little capability at present for combat operations at night or in marginal weather. Although tactical support operations were not undertaken in Korea, the Chinese Air Force has some capability for such operations. Likewise, although the Chinese bombing capability was not tested in Korea, they have a sizable force of light bombers, both jet and piston, and a few medium bombers.

31. The Chinese Navy has a low over-all operational effectiveness by US standards. Not only is its equipment scanty but its mission and interests are subordinated to those of the army and the air forces. However, the Chinese Navy has the capability for carrying out limited surface combat operations in the coastal waters off the China mainland. These could include raids, coastal security patrols and escort operations, mine laying and mine sweeping, and amphibious assault over a short distance. While the naval air force is still in its formative phase, it has a limited capability of supporting surface combat operations by mine laying and by low altitude attacks against surface elements.

32. The major weakness of the Chinese armed forces is their lack of domestic supply facilities and their concomitant dependence upon the Soviet Union for such items as tanks,

aircraft, military transport, naval vessels, POL, electronic equipment, and spare parts. At the present time this weakness would become critical in the event of a general war in the Far East which involved both the Soviet Union and China. In such a circumstance, the ability of the Soviet Union to supply China with military goods would be limited by the capacity of the Trans-Siberian railway, in view of the demand on this capacity entailed in supplying Soviet forces in the Far East. Chinese arsenals at the present time are capable of producing small arms, light and heavy machine guns, mortars, light artillery, and ammunition for these weapons, but not in sufficient quantities to supply the present needs of the modernization program.

Chinese Communist Foreign Policy

33. The task of carrying out a political, social, and economic revolution within China along Communist lines is complicated by China's international relationships. China's alliance with, and dependence on the USSR as well as their common ideology have led China to subordinate some of its interests to broader Bloc interests. Mainly as a result of China's aggressive posture and actions toward non-Communist states, China has largely been cut off from non-Communist economic relations and diplomatic support.

34. The Peiping regime has embarked upon a program to make China the dominant power in a Communist Asia. An intrinsic part of this program is a strengthening of China's military establishment. Partly in pursuit of its long-range objective and partly in response to Soviet policy, Peiping has assumed a leading role in furthering international Communist policy in Asia.

35. China's domestic interest, international relationships, and long-term aspirations have resulted in a foreign policy along these broad lines: (a) maintenance of the alliance with the USSR; (b) aid to indigenous Communist parties and groups in non-Communist Asian countries; (c) continued application of political warfare pressure against non-Communist Asia; and (d) diplomatic and propaganda

efforts designed to enhance China's prestige and world status. Such a policy appears to be designed to further China's domestic and international objectives without provoking open conflict with the West. It also appears to be based on the belief that time will work to the Communist advantage in achieving China's international aspirations.

III. PROBABLE TRENDS IN CHINA THROUGH 1957

Long-Range Objectives and Plans

36. The Chinese Communists have as their long-range goal the development of a Soviet-style state in China with its own bases of economic and military strength, and dominant in eastern and southern Asia. To this end they will continue to reorganize the social structure, improve the administrative system, and modernize the economy as rapidly as possible. They will continue gradually to enlarge the state sector of the economy, curtailing and subjugating private enterprise, and establishing large cooperative and collective farms. They will continue to give first priority to basic industrial and transport development. The regime will also devote substantial resources to modernizing and strengthening its armed forces as a power base for its foreign policy.

Problems of Leadership and Control

37. Within recent months, there have been increasing indications that the party leadership is dissatisfied with the performance of various high officials. The current emphasis on the need for party unity and collective leadership, while directed immediately at individual dissidents, appear ultimately directed to improvement of collective planning and management. It also seeks to minimize personal differences among party leaders in the event of Mao's death. Disagreement over Soviet aid and the pace of socialization may constitute an obstacle to the success of the economic program.

38. It is possible that China will be faced with a "succession" problem between now and

1957. Mao, now 60 years old, is reported to be in poor health. If he were to retire or die during this period, a collegial succession, at least initially, would be more probable. If a single leader were chosen either Liu Shao-ch'i or Chou En-lai would appear to be the most likely successor. In any event, Mao's disappearance from the scene would probably have an adverse effect upon China's ruling group, and would almost certainly have an adverse effect upon China's relative prestige within the Sino-Soviet partnership. We believe, however, that the problems arising out of possible need to choose a successor to Mao will not seriously impair the dictatorship or the regime's ability to direct and control China.

39. The regime must also overcome its acute shortages of qualified technical, managerial, and administrative personnel. Such shortages affect all sectors of the regime's efforts to administer, control, and develop China. The capacity of Chinese middle schools and institutions of higher education will be adequate to graduate only a fraction of the approximately 600,000 technicians, teachers, medical personnel, and trained workers in government and commerce which the regime has announced it will require by 1957 to carry out its national economic programs. The effects of this shortage in trained personnel will be aggravated by widespread Chinese technical inexperience and by the high degree of illiteracy (80 percent). China will therefore probably attempt during the period of this estimate to deal with shortages of trained personnel by lowering educational standards, by sending greater numbers of Chinese students to the USSR for training, and by utilizing Soviet advisers and technicians. By such measures, China will probably be able to avoid any serious breakdown of its political and economic programs. Nevertheless, the shortage of trained personnel will continue to be an important retarding factor in the regime's over-all progress.

40. The regime will continue to have difficulty in maintaining its present degree of support while pushing forward with its programs. Political and economic pressures will tend to

antagonize the peasantry and certain other groups, and all classes will increasingly resent the use of force. Government appeals to nationalism as well as efforts to persuade the people of the necessity for Soviet advice and guidance may backfire by fostering resentment of Soviet influence in China, and thereby increase dissatisfaction with the regime. The regime's attacks on traditional Chinese values will continue to encounter increased resistance, particularly in rural areas. In any case, the regime will be unable to offer significant incentives to mitigate these adverse reactions because of the pressure on available resources entailed in fulfillment of its military and investment programs.

41. However, in some segments of the population certain other factors will be working in the regime's favor. By 1957, a substantial portion of China's population will have matured under Communist indoctrination. National pride may be stimulated by propaganda extolling real and imaginary achievements of a "new China." A sense of participation in China's national life will be increased by the activities of elective local, regional, and national bodies, even though these bodies will in fact have no real authority.

42. In sum, we believe that during the period of this estimate the regime will not have greatly changed the prevailing social customs and practices, nor will it have gone far in reducing illiteracy. We believe that while the regime will continue to receive the support of some and face the hostility of other portions of the population, the bulk of the people will continue to accept Communist leadership passively. In any event, because the efficiency of governmental control apparatus will probably improve, the degree of control exercised by the regime over the people will probably increase. Finally, we believe that the leadership will continue to resolve any personal differences which might significantly impair its ability to direct and control China.

Economic Problems and Programs

43. Although the Chinese plans for economic development are not known in detail, the regime in May 1953 announced a substantial

reduction of its goals in the first year of the five-year program. The program now appears to be to increase the gross national product in 1957 to 20-25 percent above the 1952 level. Emphasis is placed upon increasing the output of the modern industrial sector, particularly heavy industry and transport. Plans for industrial development appear to be directed in particular toward continued rehabilitation and expansion of the Manchurian plant, with some expansion of industry in the rest of China.

44. The central economic problem confronting the regime in carrying out its plans is to accumulate capital resources and to allocate such resources in a way most conducive to a rapid and efficient implementation of its programs. The major domestic determinant in the success of the programs will be the extent to which the regime is able to increase agricultural output to feed the growing population, to provide raw materials for industry, and to provide exports to pay for essential capital goods imports. At the same time, in restricting consumption the regime must avoid destroying production incentives. The regime must also avoid disrupting production by pressing too aggressively with its political, social, and economic reforms. The task of allocation will require the development of an effective administrative apparatus, despite the obstacles faced in the lack of trained personnel, poor communications, the low level of literacy, and the awkwardness of the written language. Allocation decisions must be made between the competing claims on the resources and energies of the regime for the economic, military, political, and social programs.

45. Aside from domestic considerations, the most important factor determining the rate of industrial development in China will be the volume of goods and services made available to China by the USSR. While China's ability to export commodities in demand by the Soviet Union and the European Satellites is an essential element, of equal significance is the availability in the Bloc of desired goods and services and the policy of the USSR with respect to building a strong China.

46. China's agricultural system, involving about three-quarters of the total population, has basic weaknesses. There is a low ratio of cultivated land to the population. The farmers lack knowledge of new techniques; they lack capital with which to purchase fertilizers, insecticides, and equipment; individual holdings are generally too small to permit the introduction of mechanization even if capital were available. These factors result in inefficient use of manpower and low output per man.

47. Taking into account the many problems involved, we believe agricultural production will have increased by about 10 percent between 1952 and 1957. These gains in output are expected to result from expansions of acreage under cultivation, extension and repair of irrigation facilities, increased use of chemical fertilizers, and the additional incentive to intensive and diversified production induced by the expansion of urban and export markets. However, weather and other unpredictable factors may prevent the Communists from achieving such an increase. The regime may also encounter difficulties in its efforts to reorganize agricultural production and to enforce crop collection. The emphasis will be placed on cooperative action rather than on the formation of state farms. However, implementation of the regime's plan to organize some 20 percent of the farmers into producers' cooperatives by 1957, may have disruptive effects on agricultural production.

48. In order to provide capital from increased production to support industrial expansion and increased imports of capital goods, the Communists must maintain control over the rate of consumption. Pressures for increased consumption will come from the farmers, increased numbers of industrial workers, and the over-all rise in total population. The population increase, in part a result of improved public health measures and in part a result of more stable conditions, will tend to be concentrated, by migration, in the large urban areas where per capita consumption is about twice that of the rural areas. Because of this, a population growth projected at less than one percent per year, would increase total

consumption by five to eight percent between 1952 and 1957 even in the absence of any change in urban and rural living standards. Although the regime will be faced with many difficulties in restricting consumption, particularly in rural areas, we believe that its control mechanism is adequate to restrict consumption to roughly half of the expected 20-25 percent increase in total output by 1957. The remaining proportion could provide sufficient investment resources to permit achievement of the regime's estimated industrial and military programs.

49. Another crucial problem in fulfilling the industrial program will be the supply of capital goods. Domestic capital goods output is small, of poor quality, and of limited variety, and the Chinese Communists must depend on foreign trade — particularly with the Soviet Bloc — for the bulk of their supply of capital goods. Although the USSR provided US \$300 million in credits to China in the 1950-1954 aid agreement, the Soviet Union probably will not grant substantial further credits to China for capital goods and therefore we believe that China's imports with the possible exception of some military items are likely to be approximately limited to the amount which can be financed through exports. Moreover, since import programs from Bloc countries are determined in annual barter contracts and since transport between China and these countries is difficult, deliveries of capital goods are likely to be uncertain, with resulting adverse effects on the development program.

50. In view of the current deficiencies in rail transport and the large prospective increase in traffic requirements, the Communists will have to make strenuous efforts to insure that the rate of increase in transport capacity, particularly railroads, keeps abreast of the demands generated by the increase in production. The most urgent need will continue to be rolling stock. Locomotive and freight cars cannot be produced domestically in adequate quantities and therefore will have to be imported. Thus a crucial area of investment required for the fulfillment of the Chinese economic program will be the expansion of railroad capacity. The regime has recognized

the importance of this problem and we believe that it will continue to give it high priority.

51. The Chinese will divert substantial resources to building up a modern military force. Over and above the funds allocated in announced national budgets for military expenditures (see Chart II), substantial funds for military purposes, such as arsenal construction, are concealed in other categories of the budget. We believe that at present something over US \$3 billion, about one-third of the national budget, is being expended on military items and that this level will not change substantially during the period of this estimate. Moreover, since China's armaments industry does not produce heavy equipment such as tanks and artillery or aircraft, a major share of foreign exchange earnings must be used for military end-items as well as equipment for expanding China's armament production. We believe the Chinese will utilize roughly one-third of total export earnings for the import of military end-items and POL during the period of this estimate. This does not include possible imports of military supplies given to China by the USSR on a grant or credit basis.

52. We estimate that by 1957 China can increase its total exports by about 50 percent over 1952, primarily through increased exports of agricultural and mineral raw materials. This increase would probably provide adequate funds for minimum import requirements of the industrial, agricultural, and military programs. The Soviet Bloc will probably make these imports available.

53. The Chinese Communists may seek to expand trade with non-Communist countries. Relaxation of non-Communist trade controls could contribute to the fulfillment of the regime's programs and reduce China's economic dependence on the rest of the Soviet Bloc. These effects would materialize, however, only to the extent that non-Communist countries were willing and able to extend credits and supply goods not available to China from Bloc sources, or on terms more advantageous to China than those entailed in trade with the Bloc.

54. In summary, although the Chinese will face many serious difficulties in achieving their economic goals, we believe that by 1957 the regime can expand total output by 20-25 percent over 1952.

Probable Developments in the Chinese Communist Military Establishment

55. The regime apparently intends to strengthen the military establishment primarily through modernization rather than through a significant increase in manpower. Soviet assistance will continue to be essential to the fulfillment of this program.

56. The capability of the army will almost certainly improve. The number of infantry divisions will probably be reduced to provide manpower to strengthen the remaining infantry divisions, and to increase the number of service and support units. Training will be intensified and selection and utilization of personnel will improve.

57. The air force is expected to be expanded and to be developed into a more balanced force. Its personnel strength will probably be expanded to about 90,000 and its authorized aircraft strength increased to approximately 2,500, including 1,400 jet fighters and 480 jet light bombers. The extent to which aircraft are provided to fill out the authorized strength depends on Soviet supply. The over-all combat readiness of the Chinese Air Force is expected to improve appreciably during the period as a result of increases in aircraft and personnel strength, improvement in training, and an increase in supporting services and facilities.

58. Naval development will probably be relatively minor, although it may include the acquisition of a number of coastal or medium-range submarines from the USSR. It is likewise expected that the Chinese Naval Air Force will be developed to an authorized strength of 340 aircraft, including 160 jet fighters and 80 jet light bombers. New techniques in training are expected to be introduced which will enhance the capability of this force to attack shipping of all types along the China coast.

IV. CHINA'S POSITION IN 1957

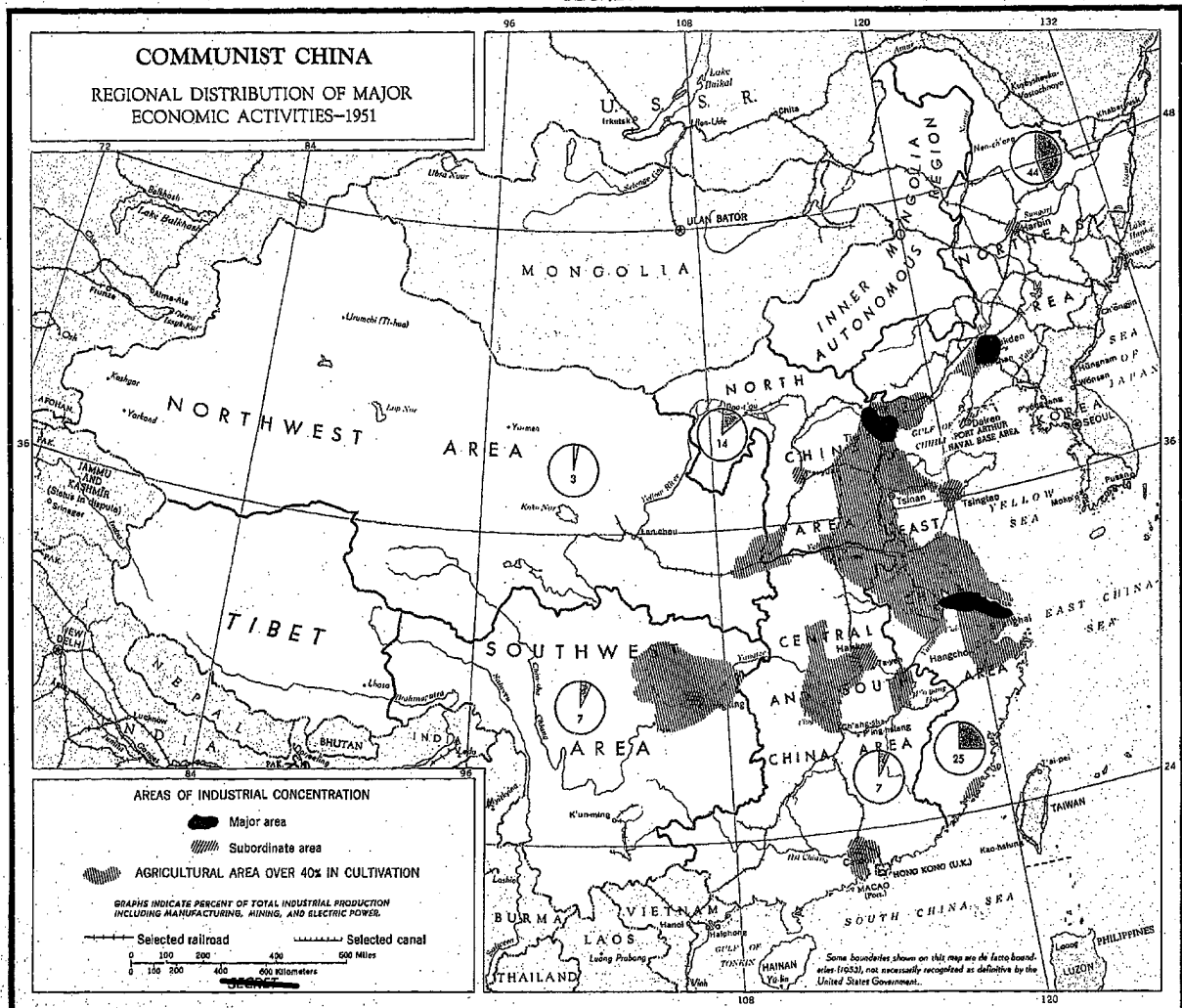
59. We believe that by 1957 the Chinese regime will have further tightened its control over its people. We also believe that unless some major crisis or other unpredictable event occurs, the regime will by 1957 have attained a gross national product of roughly US \$32 billion, an increase of 20-25 percent over the 1952 figure. The agricultural contribution to GNP in 1957 will probably be about 10 percent above the 1952 level. That part of the GNP accounted for by the modern industrial sector of the economy in 1957 will probably be roughly US \$6 billion, a 70-100 percent increase over the 1952 level. The country will as a whole remain agrarian and underdeveloped.

60. Despite the progress made by 1957, the Communists will have only begun the task of transforming China. The country will as a whole remain agrarian, illiterate, and un-

derdeveloped. Moreover, while the regime will probably have developed a modest industrial sector, China will be faced with increased difficulties in maintaining the rate of growth.

61. We believe China's dependence on the USSR will not be significantly lessened during the period of this estimate, and that maintenance of the alliance with the USSR will continue to be a dominant aspect of China's foreign policy. The Communist Chinese regime will continue to consolidate its political position, to gain in economic and military strength, and by 1957 will be a more powerful force in world affairs than at present. Certain aspects of China's development will be used to support claims that time is on the Communist side in Asia. China's increased power and prestige will present a challenge to the influence of the Western nations in Asia, and to the Asian leadership aspirations of India and Japan.

~~SECRET~~



~~SECRET~~

~~SECRET~~